

Banking at the Checkout

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Introduction

When the world's largest retailer announces plans to start a bank, the banking world takes notice. Wal-Mart's plans to start Wal-Mart Bank stimulated an intense debate in the United States and beyond on the threat to banks posed by retailers, the boundaries between finance and commerce, and the appropriate regulation of financial institutions.

But Wal-Mart is only the latest of many major retailers across Europe, Asia and North America with ambitions in financial services (see Table 1). For example, Carrefour and Tesco have been offering financial services in their own names for many years. Several now have large banking businesses to their name. Despite the failures – notably Sears in the US during the late 1980s and early 1990s – financial services appear perennially attractive to large retailers.

Retailers are attracted to the provision of banking and other financial services to their customers for two main reasons.

First, retailers see opportunities to provide financial services to those consumers outside the mainstream banking system. Though many of its critics suspected otherwise, Wal-Mart always denied any plans to provide banking services direct to consumers. However, it is now expanding significantly the financial services it supplies to "under-banked" and "unbanked" customers.

Second, retailers see dissatisfaction with banks and want to use their stronger reputations with consumers to offer financial services such as credit cards, loans and savings accounts to the mainstream market alongside the groceries and clothes. This is the approach pursued by leading European retailers such as Tesco, Auchan and ICA.

The report examines both strategies. It takes Wal-Mart in the United States and Tesco, Sainsbury's and Marks & Spencer in the United Kingdom as its central case studies. These are supported with further case studies of retailers in the US, Europe and Australia.

In the case of the US, the analysis focuses on Wal-Mart's ambitions in financial services following its unsuccessful application for a banking licence. It examines Wal-Mart's plans to focus on providing financial services to the "unbanked".

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The UK market has perhaps the longest track record of major retailers providing mainstream retail banking services. It is now 10 years since the launch of Sainsbury's Bank, 11 years since Tesco started offering financial services and approximately 20 years since Marks & Spencer used its store card as a platform for offering other financial services. The analysis of the UK market focuses on retailers' track record in the mainstream retail banking market.

The report concludes with a series of overall observations on the supply of financial services by retailers.

Note on report scope

In addition to providing financial services directly to consumers, retailers are attracted to banking because they want to reduce the cost of accepting payments and take greater control over the process. Wal-Mart cited this as its reason for setting up Wal-Mart Bank. Australian retailers have pioneered the self-acquisition of card payments

This rationale for setting up a bank is different from supplying financial services to personal customers. It is a business-to-business rationale that involves retailers taking in-house a service currently supplied to them by banks or specialist payments processors.

The first version of *Banking at the Checkout* included coverage of payments processing and self-acquiring by retailers. We have decided to focus this updated version of *Banking at the Checkout* on the supply by retailers of financial services to personal customers. The analysis of the issues raised by payments processing and self-acquiring will be pursued elsewhere.