## The Cost of Reform: Wallet Sizing & Basel III

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*Basel III will increase costs. Don't doubt this. The most talked-about aspect of the regime - the capital requirements - alone are significant, but combine that with liquidity requirements and the costs of banking is going to increase. The Organisation for Economic Co-operation and Development (OECD) is estimating a 15-point increase in lending spread. These increased requirements will make it important for corporates to find alternative avenues of capital.*

One of these alternatives is going to be furthering wallet sizing activities - helping banks determine and gain increased share of a customer's wallet. However, increases in costs will also likely make customers more careful, driving a similar process of optimisation of their limited wallets in order to allocate them most efficiently.

**Understanding Basel III**

For those not following it, Basel III is intended to increase the stability of the market by limiting risk. It raises Basel II's solvency ratio to 7% - though that number alone can be a little deceiving, as it also does some redefining of regulatory capital and risk weighted assets. With these new rules, some financial instruments are no longer eligible, while intangibles and deferred tax assets are now deducted from regulatory capital.

Additionally, it sets a new liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) to create a "mattress of liquidity" for times of stress. The LCR set requirements whereby high-quality, high-liquid assets available must exceed cash flow over the next 30 days. This means long-term resources must exceed long-term commitments.

In short, banks will need more capital. And that means a higher cost of borrowing for bank customers.

**Wallet Sizing**

Wallet sizing came from the 1990s practice of banks determining how much a client spent on financial services so they had a basis on how much they could sell to a client. This helps banks understand if they are using their capital effectively, and capture a larger share of wallet. With the increased capital requirements in Basel III, this kind of analysis is going to become even more crucial. However, we're also getting the reverse: bank relationship management (BRM) solutions, integrating the same kind of calculations to show clients whether they're getting optimal rates from banks.

**What This Means for Corporations**

With Basel III's increasing capital requirements, corporations should expect that their banking costs to increase. However, without knowing how much, they leave themselves open in a market where there will be a push to make more per client. For this, BRM applications are going to be crucial to understanding whether they are paying more than they should, and to allow them to increase business with banks that treat them well.

**What This Means for Banks**

These same capital requirements are going to increase the need for analysis of wallet share so as to optimally allocate capital. However, with increased attention to the minutia of their dealings, it is also going to require banks to keep an eye on the relationships they have with their clients. It's time to take a lesson from relationship marketing, and increase focus on clients' needs and the relationships you can build with them.

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