

# Dialogue on the Future of Banking

***“Banking is just bits and bytes”***

John Reed, CEO and Chairman of Citibank, 1984-1998

***“In the next 10 years, we'll see more disruption and changes to the banking and financial industry than we've seen in the preceding 100 years”***

Brett King, Founder Moven and author Banking 2.0 and 3.0 and Breaking Banks

***“Banking is essential, banks are not”***

Bill Gates in 1994, Co-founder of Microsoft

***“The biggest risk to the finance sector today is not from other banks, nor related to the inability to apply Basel III risk controls or standards. The biggest risk to the finance sector today is the growing gap between the institution and the customer”***

Brett King, Founder Moven and author Banking 2.0 and 3.0 and Breaking Banks

***“Banks run the risk of emerging from the crisis recapitalised, restructured, reformed - but irrelevant”***

PwC report in 2012, banking industry reform - a new equilibrium

# Dialogue on the Future of Banking

The Future of Banking dialogue is structured around the question: "Will you be relevant in the near future?"

## 1. Our lens on the Future of Banking



## 2. Megatrends – STEEP



**Social**

**Customer Behaviors**

- Social Networking
- Customer Expectations
- Health
- Risk Awareness

**Talent Drain**

**Stakeholder Trust**

**Corporate Social Responsibility**

**Demographic Shifts**

- Population aging
- Changing Middle Class
- New Family Structure
- Dependency Ratio

**Technology**

- Information & Analytics
- Devices & Sensors
- Software & Applications
- Medical Advances

**Economic**

- Urbanisation
- New Growth Opportunities
- Fiscal Pressure
- Inflation/Deflation
- Risk Sharing & Transfer
- Social Security & Benefits
- Distributor Shift
- Partnerships

**Environmental**

- Climate Change & Catastrophes
- Sustainability
- Resource scarcity
- Pollution

**Political**

- Regulatory Reform
- Geo-political Risk
- Rise of State-Directed Capitalism
- Terrorism
- Tax Treatment

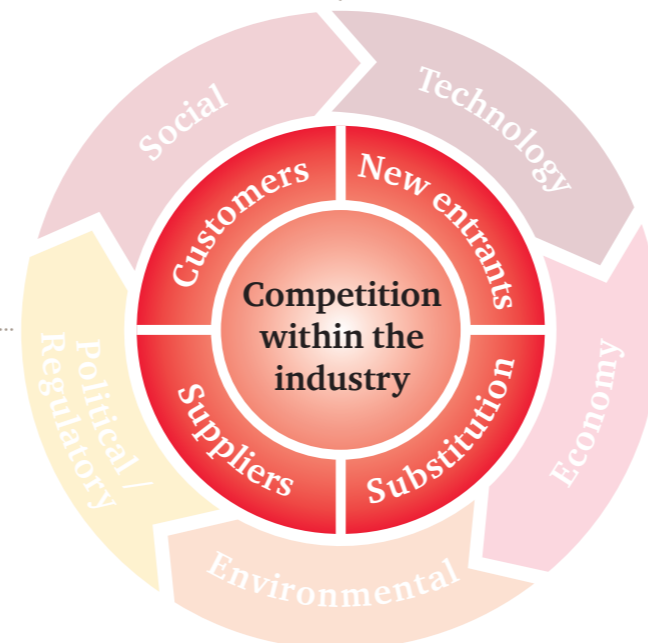
## 3. Banking Industry Five Forces

Across retail and corporate banking, customer expectations reflect changes in society



Are you really customer centric?

Who will be fierce competitors?



### Payments

- PSPs and EMI's
- Other fintech
- Credit card companies
- Virtual currencies
- Telco's
- Retailers

### Investments

- "Early disruptors"
- Execution only platforms

### Lending

- Capital markets
- Private placements, specialised funds, private equity
- Structured finance and securitisation
- Credit unions
- P2P and crowd funders
- Vehicles by insurers

### Mortgages

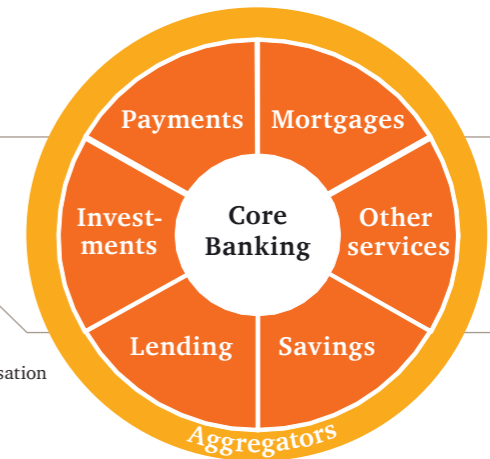
- Insurers
- Specialised aggregators
- P2P and crowd funders

### Other services

- Financial advice
- Currency exchange
- ...

### Savings

- Specialised aggregators



Is your economic spread sufficient for your investors?"

Economic spread:  $RoE > CoE$

**Return on equity**

$$RoE = \frac{\text{Net income}}{\text{Shareholder's equity}}$$

Measure a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested

**Cost of equity**

$$CoE = R_f + B * (R_m - R_f)$$

The compensation that the market demands in exchange for owning the asset and bearing the risk of ownership

What are the new business economics?

Can you reinvent your organisation?

- Mindset
- Game plan
- Execution
- Ambition
- Collaboration
- Talent
- Versatility
- Resilience
- Endurance



Innovative leaders excel at multiple disciplines, rather than simply focusing on one area of innovative expertise

Risk footprint

## Summary of the Future of Banking dialogue

The European banking landscape is rapidly changing. Banks' core competitive advantages over new entrants are being eroded mainly by fast paced changes in **technology and regulation**, making it difficult to generate returns above the cost of capital. European banks need to radically overhaul their technology infrastructure if they are to battle the competitive threats to their business from a host of new entrants.

To date, many banks have focused their digital investments on improving their ability to do simple transactions through online or mobile channels, thereby reducing brick-and-mortar branch costs. They haven't devoted as much attention to making customers' banking lives more convenient, easy and engaging, by creating a **differentiated customer experience** featuring truly innovative, useful digital applications and a seamless integration of all channels (also referred to as 'omnichannel').

In the meantime, the European Commission has been keen to **encourage competition and lower the barrier for new entrants** into the market. Emerging business models are using new technologies to re-invent key elements of financial services and new players are undermining the traditional bank business model by cherry-picking more attractive parts of the business.

To succeed in this rapidly changing landscape, banks need to have a clear sense of the posture and role they wish to adopt – whether to shape the industry, rapidly follow the leaders, or manage defensively, putting off change. They need to have a **clear strategy to deal with these challenges** and address these priorities, including considering partnerships with third parties and applying lessons from other industries. Of course, the level of focus on each of them depends both on a bank's starting point, and its unique strengths and challenges. However, each priority is important, and success will come from a balanced execution across them – and a balance of tactical initiatives and longer term programs, all coming together as an integrated whole.

The 'Future of Banking dialogue' is structured around the question: **"Will you be relevant in the near future?"**. In order to get to an answer to this question, Five Forces have been defined which focus on customer centricity, new entrants into the market, suppliers, substitution and finally competition within the industry. For each of these forces, an overview is provided of the relevant megatrends and the impact of these megatrends on the banking business is assessed and to illustrate this some examples are given.

Banks have successfully adopted technological developments - such as the rise of the Internet - that threatened their model in the past but this time it could be different...

## For information on the Future of Banking, please contact the 'FoB' team



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