Dialogue on the Future of Banking

“Banks run the risk of emerging from the crisis recapitalised, restructured, reformed - but irrelevant”
PwC report in 2012, banking industry reform - a new equilibrium

“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

“Banking is just bits and bytes”
John Reed, CEO and Chairman of Citibank, 1984-1998

“Banking is essential, banks are not”
Bill Gates in 1994, Co-founder of Microsoft

“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

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Dialogue on the Future of Banking
The Future of Banking dialogue is structured around the question: “Will you be relevant in 2020?”

1. Setting the scene

- **Competitors**
  - Non-bank Competition
  - Less stringent regime for new entrants

- **Absorbing resources**
  - Clients’ demand
  - Earnings model

- **Competition**

- **Rules and regulations**
  - Supervisor
  - More data driven
  - Rules and regulations

2. Megatrends – STEEP

- **Social**
  - Customer Behaviors
  - • Social Networking
  - • Customer Expectations
  - • Health
  - • Risk Awareness
  - Talent Drain
  - Stakeholder Trust
  - Corporate Social Responsibility

- **Demographic Shifts**
  - • Aging
  - • Changing Middle Class
  - • New Family Structure
  - • Dependency Ratio

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

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

3. Several questions leading to the overall question: “Will you be relevant in 2020?”

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

- **Mindset**
  - Game plan
  - Execution

- **Ambition**
  - Collaboration
  - Talent

- **Versatility**
  - Resilience
  - Endurance

- **Risk footprint**

- **Customers…**
  - …are informed
  - …have choices
  - …have a voice
  - …expect more
  - …trust their peers

- **Return on equity (RoE)**
  - Net income
  - Shareholder’s equity

- **Cost of equity (CoE)**
  - (RoE - B)* (B - Rf)

- **Economic spread: RoE > CoE**

- **Are you really customer centric?**

- **Who will be fierce competitors?**

- **What are the new business economics?**

- **Can you reinvent your organisation?**

- **Is your economic spread sufficient for your investors?**

- **Will you be relevant in 2020?**
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 2020?”. In order to get to an answer to this question, four sub-questions have been defined which focus on customer centricity, new entrants into the market, the new business economics, and finally reinvention of your organisation. For each of these sub-questions, 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…

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