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

“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
**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

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

- **Customers**
  - ...are informed
  - ...have choices
  - ...trust their peers
  - ...expect more

- **New entrants**
  - Are you really customer centric?
  - Who will be fierce competitors?

### 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.

- **Competition within the industry**
- **Customers**
- **New entrants**
- **Suppliers**
- **Substitution**

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

### Risk footprint

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

### Calculations

**Return on equity**
$$\text{RoE} = \frac{\text{Net income}}{\text{Shareholders' equity}}$$

**Cost of equity**
$$\text{CoE} = \frac{\text{Return on equity}}{\text{Risk of ownership}}$$

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

**Economic spread**
$$\text{RoE} > \text{CoE}$$

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

Eugénie Krijnsen  
Banking Leader and Partner  
Netherlands  
T: +31 (0)88 792 3698  
eugenie.krijnsen@nl.pwc.com

Pieter Koene  
Partner  
Netherlands  
T: +31 (0)88 792 7583  
pieter.koene@nl.pwc.com

Bauke Sprenger  
Director  
Netherlands  
T: +31 (0)88 792 7421  
bauke.sprenger@nl.pwc.com

Thomas Rijneveld  
Senior Manager  
thomas.rijneveld@nl.pwc.com

Ad van der Graaff  
Senior Manager  
ad.van.der.graaff@nl.pwc.com

Pieter Verheijen  
Senior Manager  
pieter.verheijen@nl.pwc.com

Rogier Adelaar  
Senior Manager  
rogier.adelaar@nl.pwc.com

Martijn Ars  
Senior Manager  
martijn.ars@nl.pwc.com

Noud Huisman  
Manager  
noud.huisman@nl.pwc.com

Shui Laam Choy  
Manager  
shui.laam.choy@nl.pwc.com

Emiel Kuiken  
Manager  
emiel.kuiken@nl.pwc.com

Martijn Brack  
Senior Consultant  
martijn.brack@nl.pwc.com

Wouter Markslag  
Senior Consultant  
wouter.markslag@nl.pwc.com

Floor Oosterwechel  
Consultant  
floor.oosterwechel@nl.pwc.com

Peter van Aacken  
Consultant  
peter.van.aacken@nl.pwc.com

© 2016 PwC. All rights reserved. Not for further distribution without the permission of PwC.

“PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Please see www.pwc.com/structure for further details.