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A STUDY OF BANKING 2020 - EVOLUTION OR REVOLUTION

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Abstract

We believe that retail banking will look very difficult in 2020 than it does today. Powerful forces are reshaping the banking industry. Customer expectations, technological capabilities, regulatory requirements, demographics and economics are together creating an imperative to change. Banks need to get ahead of these challenges and retool to win in the next era. Banks must not only execute on today's imperatives, but also radically innovate and transform themselves for the future. Many have predicted the fall of the traditional bank, as disruptive new entrants win share by offering a better customer experience through new products and channels. Yet, despite the emergence of new competitors and models, we believe the traditional bank has a bright future – the fundamental concept of a trusted institution acting as a store of value, a source of finance and as a facilitator of transactions is not about to change. However, much of the landscape will change significantly in response to the evolving forces of customer expectations, regulatory requirements, technology, demographics, new competitors and shifting economics.

Key words: powerful forces, regulatory requirements, radically innovate, transform, better customer experience, demographics, shifting economics.

Objectives of the study:

1) To understand the responsibilities of retail banking in today's world.
2) To know the need and importance of customer expectations.

3) To study the importance of regulatory requirements and use of technology in retail banking industry.

Methodology:

The methodology followed for the present paper is mainly based on secondary source of information. Due to advancement and development in information and communication technology, it is easy to get information. The type of data required for the study is available through authentic secondary source of information hence information is collected from secondary source.

Introduction:

Is this change a revolution, or an evolution? In truth, it is both. All the signposts for change are here. Many players are innovating and experimenting with new products, delivery channels and analytics. The industry has historically changed slowly – evolutionary change. Powerful forces are shaping the industry**:**70% of global bank executives believe it is very important to consider how macro trends will impact the banking industry in 2020.Powerful forces are transforming the retail banking industry. Growth remains elusive, costs are proving hard to contain and ROEs remain stubbornly low. Regulation is impacting business models and economics. Technology is rapidly morphing from an expensive challenge into a potent enabler of both customer experience and effective operations. Non-traditional players are challenging the established order, leading with customer-centric innovation. New service providers are emerging. Customers are demanding ever higher levels of service and value.

Today's challenges:

Unsurprisingly, nearly all bankers surveyed view attracting new customers as one of their top challenges over the next two years – banks are hungry for growth, and finding new customers is the first response of a good product banker. However, banks also recognize the need to deepen their customer relationships and focus more on special customer outcomes. Hence, enhancing customer service is the number one investment priority for banks, globally. The impact of complying with growing and changing regulation remains a top challenge – indeed the number one challenge for US and European banks. Unsurprisingly, this is a top investment priority for banks in these regions. Bankers also tell us informally that they are still struggling to get ahead of this challenge and develop a proactive stance with their regulators – to stop seeing regulation as a burden and start weaving regulatory compliance into the fabric of their operations. Bankers tell us they are working harder than ever before to address these challenges, and are consistently being asked to do 'more with less', given the continued cost pressure facing the industry. 'Execution, execution, execution' is the mantra, particularly for banks in the US and Europe.

Impact of global macro trends on retail banking:

To help frame the discussion of what banks should do, we first consider the macro-trends that are shaping the global financial landscape, building upon PwC's substantial research effort in this area, Project Blue*. This research around the following seven trends: global instability, demographic change, technological change, social and behavioral change, the rise and interconnectivity of the emerging markets, the rise of state-directed capitalism and the war for natural resources**.** Of course, each of the macro-trends has a different impact on the retail banking industry. The following four mega-trends have the greatest impact.

1) Rise of state-directed capitalism-regulation reshaping the industry & dictating business models.
2) Technology will change everything-becoming a potent enabler of increased service & reduced cost, innovation is imperative.
3)Demographics-changing priorities & opportunities for growth.
4) Social & behavioral change-rising customer expectations & the need to regain trust.

By 2020, we expect:

1. Wealth management will move alongside deposit-taking as a baseline service for retail banking. Banks without a strong wealth offering will lose share, as customers take increasing responsibility for their lifelong financial well-being and planning in both the developed and emerging worlds, and look for their bank to meet this need.
2. Fee-based revenues will increase as a percentage of total in developed markets and China, as consumers use longer working lives to save more and take out less (pay down more) debt, and as banks favour growing business such as wealth management and retail brokerage. In developing markets with economic and social stability, we will continue to see rapid credit growth.
3. Cities will continue to grow in attractiveness – as urban migration creates 1,000m new banked customers, as well as 800m new urban unbanked by 2040.
4. Banking the unbanked (urban and rural) will become a primary policy objective in both developed and emerging markets. This push will drive new products and business models, and will become the primary focus of governmental or state-sponsored institutions, particularly where the private sector is unable to fulfill the need. Customer trust is at an all-time low, and they want their banks to be more

socially responsible. They are also concerned about privacy and security, as more of their personal information and financial life migrates online.

5. Banks will organise themselves around customers instead of products or channels. Banks will develop the ability to view customers as a ‘segment of one’, recognising their uniqueness, and tailoring their offerings so that customers view banks as ‘meeting their needs’ not ‘pushing products’
6. Banks (in most countries) will evolve their customer experience to be more female-friendly. In one US survey, 73% of women said they were dissatisfied with the financial services industry. Complaints range from a lack of respect, to being given contradictory advice. We expect many more bankers to be women in 2020, and many more banks to publicly state this as an ambition.
7. Social media will be the media. Today, we view social media as co- existing alongside traditional media. By 2020, social media will be the primary medium to connect, engage, inform and understand your customers. Mastery of social media will be a core competency.
8. Customer trust will be returning. Some banks will benefit significantly from taking a leadership role in the public debate. The leading firm’s will have reclaimed at least some of the high ground they lost in the financial crisis and begin to reshape public opinion. All major banks will incorporate consumer education as part of their sales process. For customers to trust their banks need to feel that banks are acting in their best interests – common practices such as teaser deposit rates that reset after one year go against this, while the ability to design your own mortgage. Social and behavioral change rising customer expectations and the need to regain public trust. 71% of banking and capital markets CEOs see cyber insecurity as a threat to their business, more than any other sector.

Six priorities of 2020:

Research into the macro-trends impacting banking and research identified the following six priorities for retail banks to win in 2020

1. Developing a customer-centric business model.
2. Optimizing distribution.
3. Simplifying business and operating models.
4. Obtaining an information advantage
5. Enabling innovation, and the capabilities required to foster it.

6. Proactively managing risk, regulations and capital.

1) Developing a customer-centric business model:

Banks today have a simplistic understanding of their customers and a vastly complex product set. The winners of 2020 will turn this on its head. They will develop a much more complete understanding of their customers and dramatically simplify their product set, and so deliver a significantly enhanced customer experience with lower levels of operational risk. Begin with understanding customer needs, not with products and pricing. Many banks carry vast product sets, with subtle differences, frequently not appreciated by customers. This comes with a consequent cost in operations, technology, service and, at times, risk and regulatory challenges. Every bank customer has experienced the thrill of being passed from call-center operator to call-center operator in the vain hope that one of the them can solve the problem, that is if they can figure out how to talk to a real person at all. No wonder customers are frustrated and regulators are concerned about fair customer treatment. Customers want to feel like their bank is anticipating their needs, not bombarding them with product offerings. They want transparency and no surprises in terms of fees. Today's definition of first-class service, which most banks are a long way from delivering, is rapidly becoming a baseline expectation. And banks know that better customer experience leads to greater loyalty, advocacy, revenues deeper and holistic understanding. They will need to acquire, integrate and analyse multiple sources of internal and external data. They will be able to understand their customers' needs, and be present with a relevant solution

2) Optimizing distribution:

Historically, banks with the best branch footprint have dominated their markets, gaining outsized share. By 2020, all banks will be direct banks, and branch banking will be changing fast. Leaders will offer an anytime, anywhere service, fully utilising all banking channels in an integrated fashion. They will be re-imagining their physical footprints, introducing new branch formats, expanding physical points of presence through third-party partnerships, driving sales and cutting costs. As transactions and sales shift to digital channels, branches that cannot create incremental value will need to close, or be transformed.59%of respondents expect the importance of branch banking to diminish significantly as customers migrate to digital channels, and 48% expect branch banking to change significantly by 2020. Yet, only 16% of respondents viewed themselves as 'very prepared' for this shift. Respondents globally view the largest banks as benefitting most from these changes, and smaller regional and community banks being the most threatened. We are now at a digital tipping point, with rapid technological advances enabling all aspects of banking to be conducted online. And customers' expectations are evolving in tandem. They want to transact at their convenience, with information and advice at their fingertips. Even many of those who value the privacy and face-to-face interaction you find in a branch, will soon demand this from their of office or home. They do not want to be forced to travel nor wait in line.

3) Simplifying the business and operating model:

Banks have developed staggeringly complex and costly operating models. Often, each product has separate operations, technology and risk management processes. And banks typically have a multitude of products, many not even offered to new customers, all of which require some kind of operational customisation to serve. Further, many banks have been built over decades of acquisitions, and new product and channel development, typically with each development adding additional systems, processes and costs. Few have tackled the difficult and expensive work of integrating, optimising and simplifying their platforms. A majority of banking executives (53%) believe that simplification is very important, and 70% are making some level of investment in simplification. Yet, only 17% feel well-prepared. Taking a customer perspective, a majority of executives believe their banks must simplify products, channels and prices/rates. The most successful banks are learning from other industries. Many consumer products companies (Adidas, Apple) do not own the entire value chain. They focus on what makes them distinctive – product design, marketing, distribution and contract. Leading banks will know their customers intimately; they will design solutions to meet their needs, provide advice and capital, and manage risk. Much of today's infrastructure is not a source of competitive advantage.

4) Obtaining an information advantage:

Getting this right will be a game- changer. Fast movers will create competitive advantage in every area of the bank, customer experience, underwriting and pricing, operations, risk management and financial cost management. Few banks will be able to master the skills to integrate, analyse and act upon the insights from the ever- increasing mass of data. Customers (and banks themselves) now generate exponentially more information than ever before. Leading players will harness both structured and unstructured information – from traditional sources (such as credit scores and customer surveys) and from non-traditional sources (such as social media, and cross-channel bank customer interaction data), they will collect and purchase other behavioral data (such as mobile location and purchase data) – particularly as customers grow accustomed to forgoing some degree of privacy for proven value. Banks will enhance their credit, risk and pricing models. For example, a bank may be able to detect the beginnings of trouble at a small business, well before receivables and turnover start to show signs of weakness, by identifying negative trends in social media – enabling a much higher quality of risk management and customer service.

5) Enabling innovation, and the capabilities required to foster it:

Innovation is the single most important factor driving sustainable top- and bottom-line growth in banking. But banks today are not known as places where innovation thrives, nor are they the favored destination for top software engineers and other innovators. Banks need to organise and manage differently – protecting and enabling Innovation within the banking industry is considered to be somewhat or very important by 87% of respondents, yet in stark contrast, only 11% believe they are very prepared. And there are significant regional differences – over 60% of executives in Asia- Pacific and the emerging market. We believe developed world executives need to take more of an emerging market view of the importance of innovation, particularly once the new regulatory framework stabilises. Executives believe that the large global and national banks will bene the most and that smaller community banks and credit unions will be the most threatened. executives report that their main focus areas for innovation are customer interfaces and channels (57%), followed by customer need identification (53%), products (52%) and core platforms (52%). In Asia-Pacific, there is much less focus on interfaces and channels (44%), likely reflecting the greater penetration of mobile banking, and much more focus on customer need identification (59%) – to help create that enhanced customer experience. The emerging markets place more focus than other markets in every area (all above 64%), with the greatest focus being on innovating their core platforms (67%).

Conclusion:

Much is changing in the banking landscape – with regulation, technology, demographics, changing customer expectations, greater competition and issues with banks' own legacy business and operating models. The challenges are clear, even if the ultimate endgame is not. Banks need to get ahead of these challenges and retool to win in 2020. They need to make hard choices about which customers to serve, how to win and where not to play. They need to rebuild their organisations around the customer, simplify and structurally reduce cost. They need to learn to be agile, innovative and adaptable in order to execute effectively – and deal with uncertainty as the future unfolds. They need to do things differently. Each bank's unique response will depend upon the bank's current position, aspirations for the future, desired customer focus, organisational capabilities, brand promise, regulatory situation and capital constraints. Banks should consider the posture they wish to adopt. Do they want to shape this future, rapidly follow, or manage defensively, putting off change? Staying the same is not an option. Every bank needs to develop a strategy to tackle these challenges. One that can adapt to an uncertain future. And one that takes an end-to-end view – integrates the changes in markets, customers, risk, regulation, operations, technology – and the challenges of implementing real-world large- scale change. We hope this perspective has been provocative and provides insight as you consider both your own strategy to thrive in 2020 and the tactical actions you need to take today.

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