

Global banking outlook

# Transforming banking for the next generation



Building a better  
working world

# Global banking outlook

## Leaner but larger? Transforming banking

The next decade will bring both evolution and revolution for banks. The most successful institutions will be those that can reinvent themselves to overcome the pressures of today while becoming flexible enough to respond to the world of tomorrow.

### The bank of tomorrow

- ▶ Greater focus on profitability and more targeted focus on revenue growth
- ▶ Narrower scope and simpler structures
- ▶ Fewer customer segments but across more markets
- ▶ Deconstructed products with customer-selected components
- ▶ New products aligned to emerging customer needs
- ▶ Incumbents operating key services for new competitors
- ▶ Outsourcing of back-office functions with no competitive advantage



# Today's banks are grappling with multiple stakeholder pressures

The divergent global regulatory reform agenda shows no signs of abating

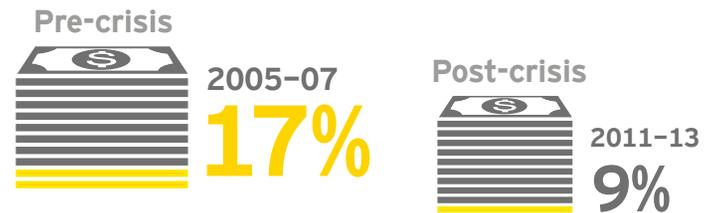
**US\$270 billion**

Conduct costs and conduct-related provisions paid by 15 leading banks, 2009–13



Investors have tired of high volatility but low returns on equity

Average ROE of 200 largest banks



The best and brightest talent is looking outside financial services

Wharton graduates taking finance jobs

2007  
**48%**



2013  
**25%**

Customer trust must be regained and better experiences delivered

**73%**

Retail customers with more than one bank

**50%**

Retail customers who have opened or closed accounts in the last year

# Meanwhile, global megatrends are reshaping the world and accelerating evolution and revolution in banking

## Global marketplace

Where will growth come from?  
With whom will you compete?



## Demographic shifts

Who are your customers?  
What will they want?



**US\$57 trillion**

Infrastructure investments required by 2030, equivalent 60% of global AuM

## Changing workforce

Whom to employ?  
Where will they work?



## Digital business

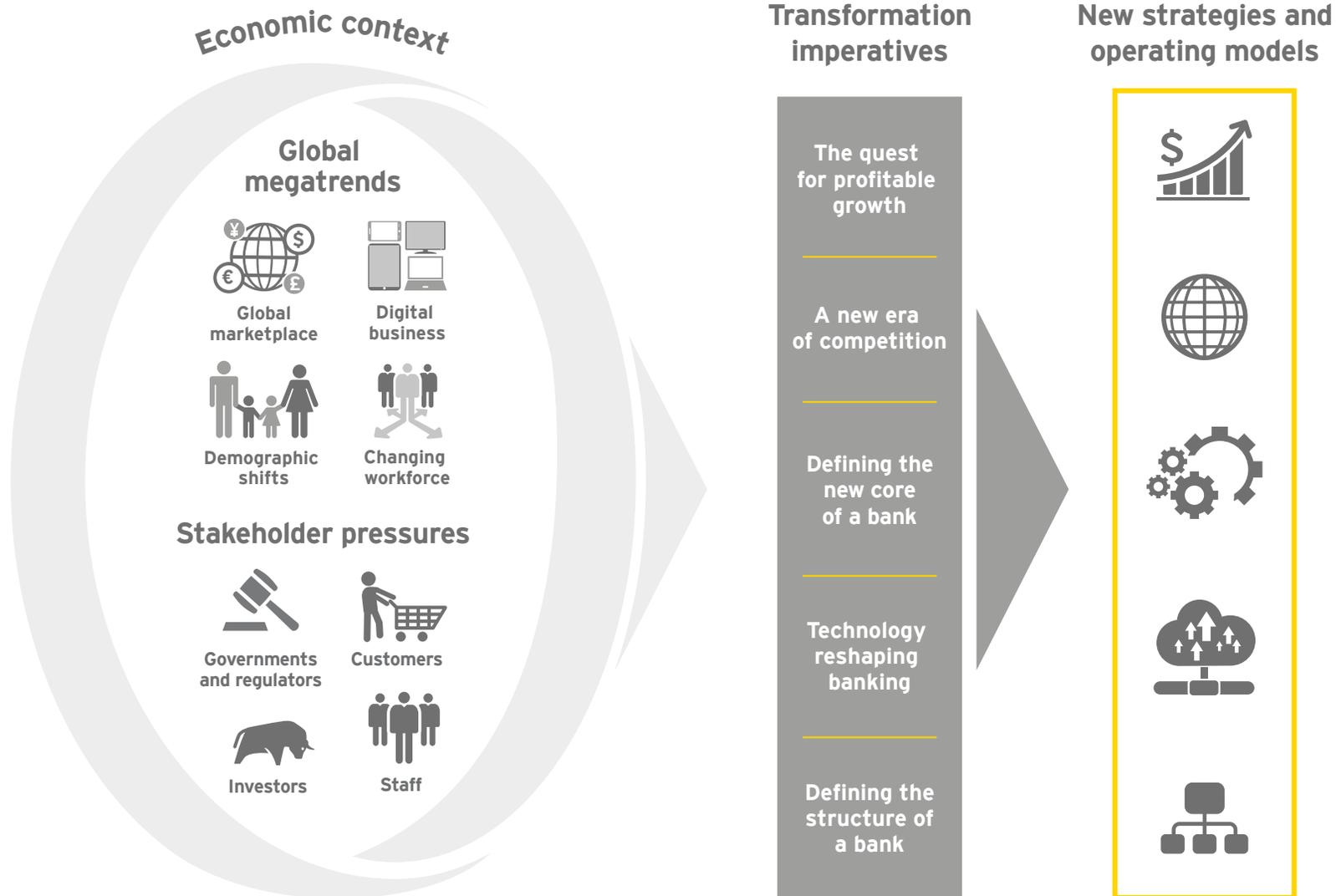
Changing customer expectations?  
How to do digital better?



Sources: Oxford Economics, TheCityUK, G20, "Our Mobile Planet research commissioned by Google," World Bank

# Driving transformation in banking

Global megatrends, stakeholder pressures and lackluster economic growth are driving **five key transformation imperatives** that will shape the new strategies and operating models of banks over the coming decade.



# Transformation imperatives

## 1. The quest for profitable growth

A 17% revenue increase would enable the average global bank to deliver a 15% ROE without further cost reduction. How can banks achieve this?



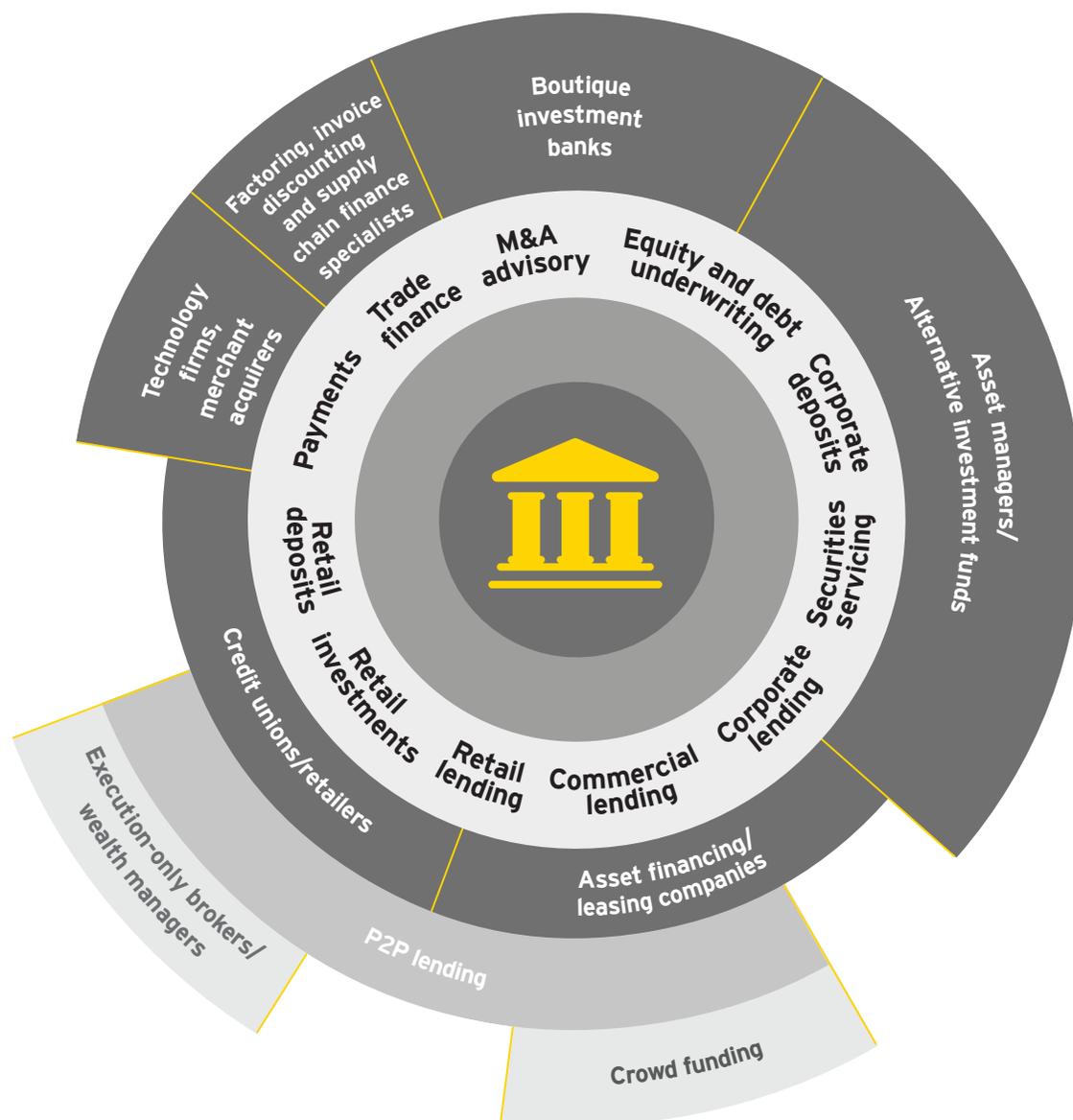
# Transformation imperatives

## 2. Surviving a new era of competition

From retail deposits to M&A advisory services, almost every part of a bank's business faces increased competition.

### How can banks overcome this challenge?

- ▶ Investing in technologies that will deliver improved customer services
- ▶ Creating collaborative partnerships with innovative market entrants
- ▶ Making strategic acquisitions



# Transformation imperatives

## 3. Defining a bank's new core

Since the crisis, banks with less diverse product and geographic footprints have outperformed genuinely global banks. Meanwhile, product proliferation has served neither banks nor customers.

### What products and services should banks offer?

- ▶ The next decade should see the simplification of banking, the deconstructing of products and an end to the age of global universal banking
- ▶ Banks must refocus on core businesses and consider buying in non-core services
- ▶ Deconstructed, customer-driven products can help grow wallet share and reduce risks like mis-selling

With customized products, customers would

Pay more



Add products



Increase deposits



Source: EY Global Consumer Banking Survey 2014

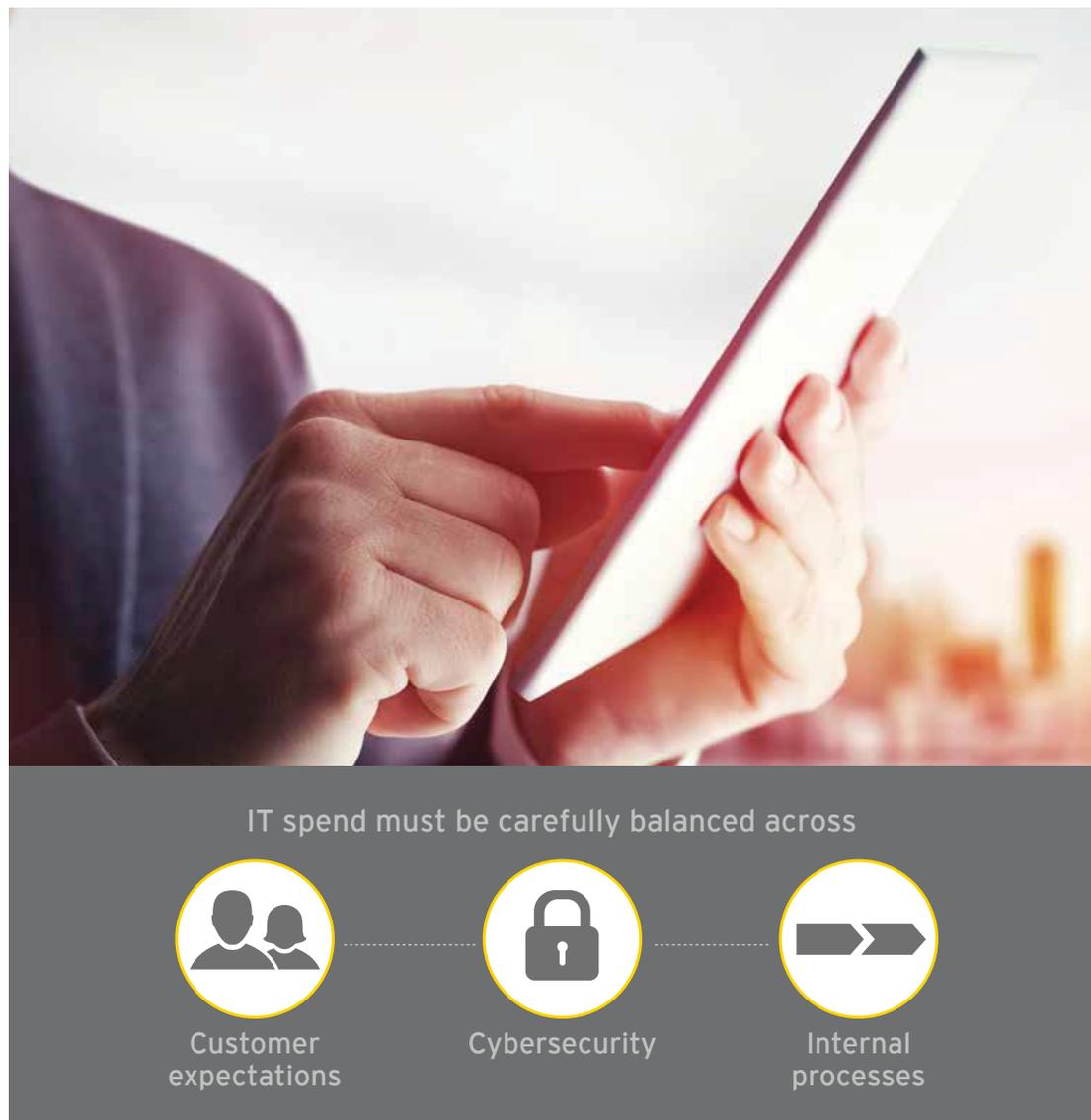
# Transformation imperatives

## 4. Adopting advanced technology

As banks invest more in technology, “bang for buck,” higher ROI and carefully balanced IT spend across customer expectations, cybersecurity and internal process are critical.

### Where should banks invest in technology?

- ▶ True omni-channel
- ▶ Technology-enabled staff
- ▶ Increased automation
- ▶ Gamification
- ▶ Greater use of big data



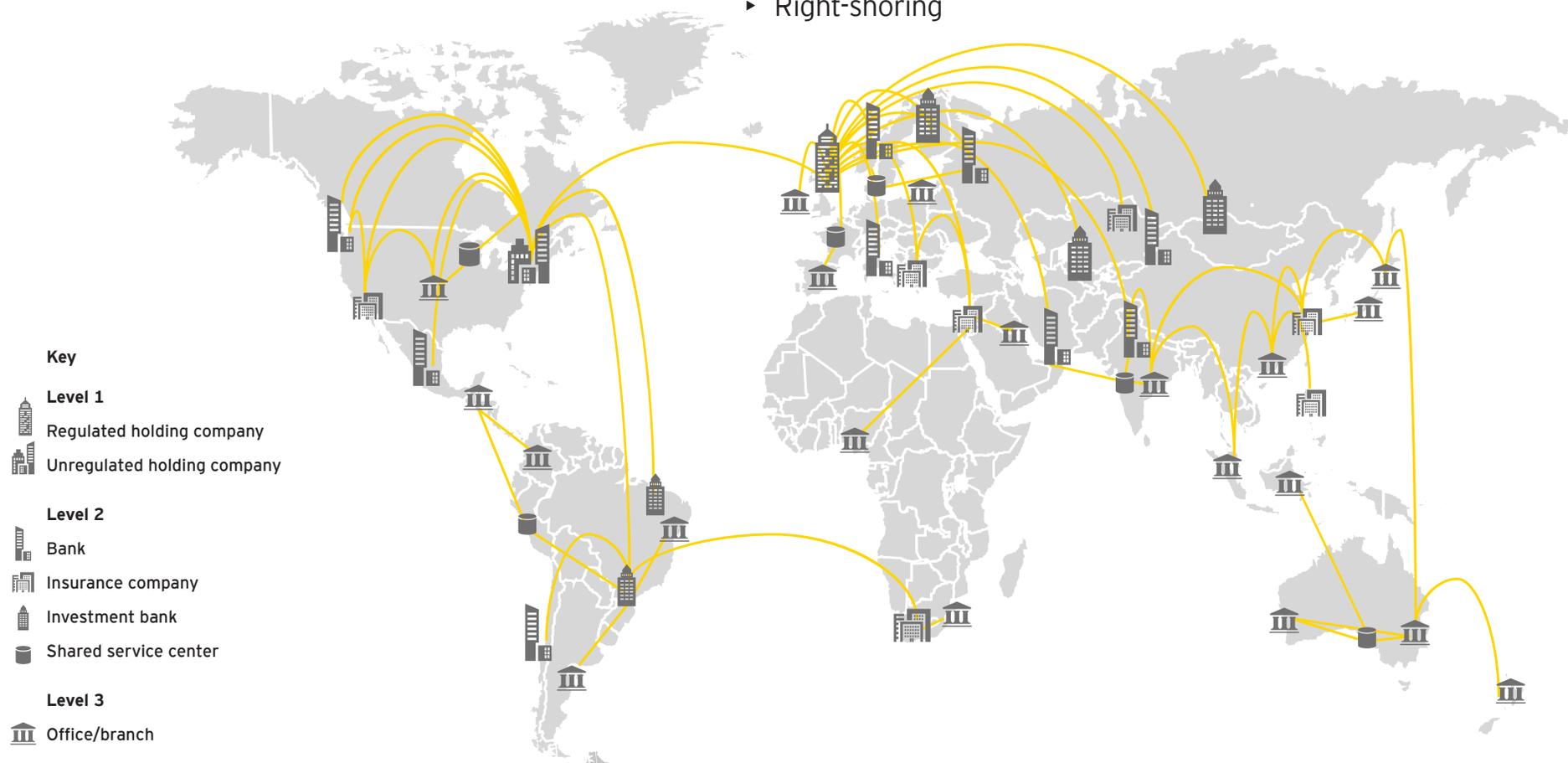
# Transformation imperatives

## 5. Defining a bank's new structure

Operating across multiple markets has led to cumbersome, complex and costly legal and operating models. Banks are now being forced to rethink their structures.

How should they restructure their operations?

- ▶ Rationalization
- ▶ Functionalization
- ▶ Right-shoring



# New horizons, new business models

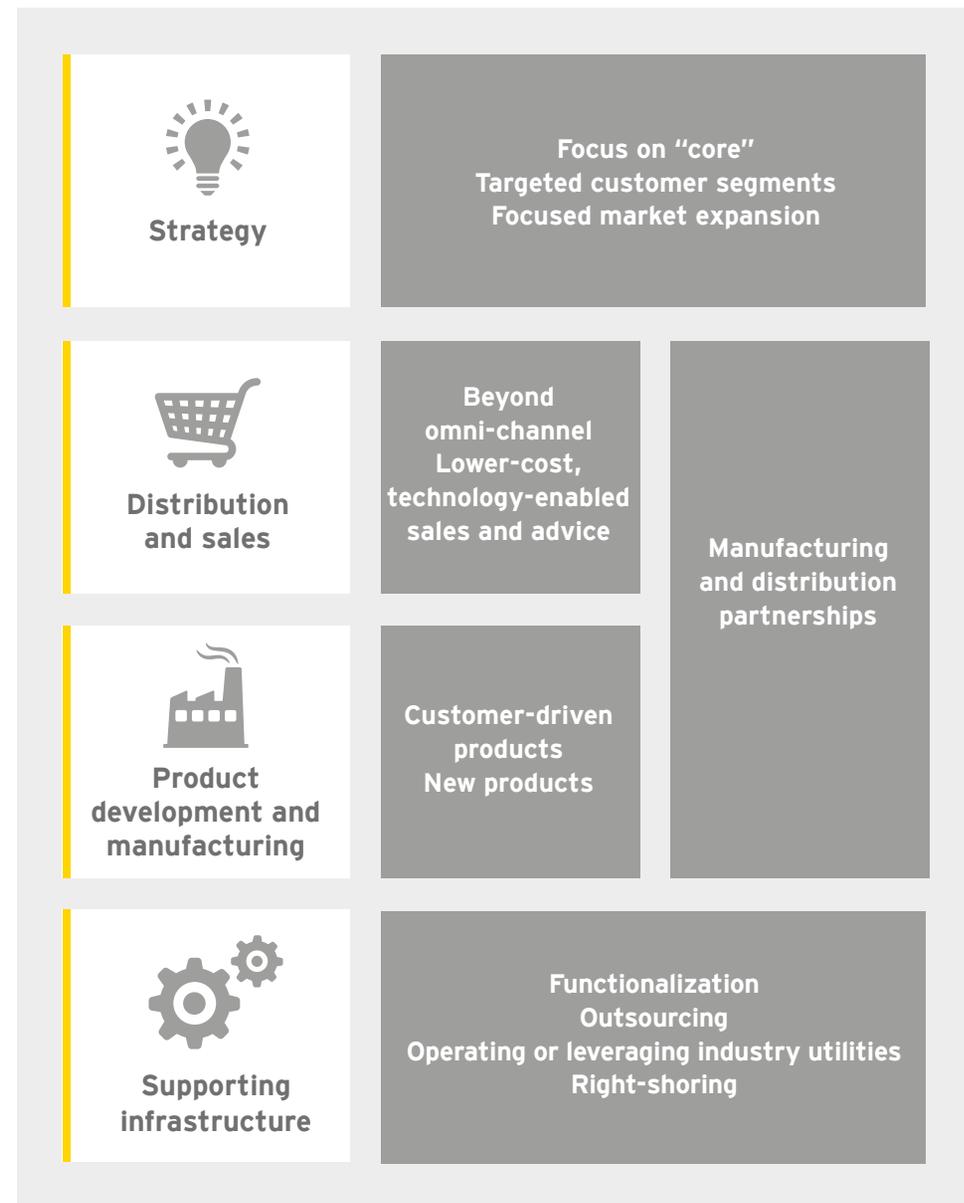
In a new era of low growth, the most successful banks will be those that master transformation.

## Business models must adapt to

- ▶ New markets
- ▶ New customers
- ▶ New products
- ▶ More decentralized operations

## Banks face a decade of business-wide change

- ▶ Data transformation
- ▶ Technology transformation
- ▶ Operational transformation
- ▶ Controls and compliance transformation
- ▶ Cultural transformation



# Learn more

Our *Transforming banking* series explores how banks must rethink their strategies and operating models, to overcome the pressures of today and respond to the emerging opportunities and challenges of tomorrow.



Transforming banking



The quest for profitable growth



A new era of competition



Defining the new core of a bank



Technology reshaping banking



Defining the structure of a bank



New horizons, new business models

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